Marshall Field & Company
ANNUAL REPORT 1974

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Contents

4 FINANCIAL HIGHLIGHTS
5 THE PRESIDENT'S COMMENTS
16 EXPANSION
18 TEN YEAR SUMMARY
20 FINANCIAL REVIEW
24 FINANCIAL STATEMENTS
34 DIRECTORS AND OFFICERS

THE · CRYSTAL · PALAC

The charm and diversity of our downtown Chicago store is shown by the contrast between the stately pillars of the main entrance (front cover) and the sprightly Crystal Palace, an old-fashioned ice cream parlour recently opened.

Marshall Field & Company

Annual Report to Stockholders

FOR THE YEAR ENDED JANUARY 31, 1975

FOUNDED IN 1852 A DELAWARE CORPORATION
CORPORATE OFFICES 25 EAST WASHINGTON STREET CHICAGO, ILLINOIS 60690

Financial Highlights

(in thousands of dollars)

	Fiscal Year	
	1974	1973
Net Sales	$547,600	$521,908
Income before Income Taxes	39,322	40,560
Net Income	20,310	20,902
Per Common Share	2.24	2.30
Dividends Declared	11,291	11,175
Per Common Share	1.24	1.22½
Net Income Retained	9,019	9,728
Accounts Receivable	85,775	84,121
Merchandise Inventories	83,805	83,932
Working Capital	109,462	109,595
Capital Expenditures—		
Modernization and Replacement	5,872	4,656
Expansion	13,122	13,324
Depreciation	7,563	6,781
Common Stockholders' Equity	220,077	211,040
Per Common Share	24.31	23.31

Note: 1974 reflects adoption of the last-in, first-out method for substantially all inventories not previously valued under this method. This accounting change had the effect of decreasing net income for 1974 by $1,173,000, or 13 cents per common share.

Annual Meeting

The annual meeting of stockholders of the Company will be held Thursday, June 19, 1975, at 2:00 p.m. at 111 North State Street, Chicago, Illinois. Formal notice of the meeting will be mailed with the proxy material to stockholders on or about May 9, 1975.

Form 10-K Available

Single copies of the Company's 1974 annual report on Form 10-K to be filed with the Securities and Exchange Commission, including financial statements and schedules, will be available, without charge, to any stockholder after April 30, 1975, upon written request to the Secretary of the Company at 25 East Washington Street, Chicago, Illinois 60690.

The President's Comments

A strong performance during the first nine months enabled your Company to reach record levels of sales in 1974 and to achieve net income of $2.24 per common share after a reduction of 13 cents to reflect a change in inventory accounting method. These earnings compare with the record $2.34 in 1972.

Accounting for substantially all of the balance of the Company's inventories was changed from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method. This reports earnings more realistically during inflation, eliminating income taxes on inventory profits and strengthening the Company's financial position.

This change reduced net income by $1,173,000 to $20,310,000, 2.8 per cent less than 1973.

Net sales registered a new high of $547,600,000, an increase of 4.9 per cent over 1973. The rate of gain was moderated by the decline in consumer spending which was first apparent in the fall and which adversely affected the fourth quarter.

Improvement of gross profit rates and the control of expenses and inventories contributed importantly to the year's results.

Each division of the Company made progress last year. The Chicago Stores Division set a new sales record. Frederick & Nelson contributed both improved sales and earnings. Sales at The Crescent, with the successful World's Fair in Spokane, were at an all-time high. Halle's opened a new shopping center store to replace the smaller downtown Erie unit.

Your Company continues to grow. In February, we opened a new 250,000-square-foot unit in the Fox Valley Shopping Center, west of Chicago. It has exceeded planned sales since its first day.

Our pattern of further growth and development has been set.

Plans are now under way to modernize the first floor of our world-famous State Street store within its traditional

character. This multimillion-dollar project will take several years to complete and will greatly enhance our largest and most important facility.

At the same time, some of our earlier shopping center stores will be renovated. Extensive changes are planned for Halle's at Westgate, and the first phase of a major remodeling of Old Orchard, our largest outlying unit, is now in progress.

While present economic conditions could necessitate some changes in timing for new stores still in early planning stages, two new facilities are well under way.

Our new facility in the Orland Park Shopping Center, which will serve southwest suburban Chicago, will open in 1976.

The most innovative and dramatic development is Water Tower Place, scheduled to open late this year. A Company subsidiary is co-venturer in this sophisticated urban center which will add a vertical shopping mall, a new Marshall Field & Company store, a Ritz-Carlton hotel, and a condominium tower to Chicago's elegant North Michigan Avenue.

Each of these new enterprises is reason for great pride and confidence in the future of your Company.

In addition, we have the financial strength to avail ourselves of appropriate opportunities in new markets and new ventures.

The tempo of change is accelerating at Marshall Field & Company. We are now using new and different approaches in merchandising and promotion. We are attracting younger customers. We are bringing additional able professionals into the Company. We are introducing new ideas in everything we do. We are improving productivity while maintaining our standards of service to our customers. We are equally determined to keep the traditional character, quality and reputation of Marshall Field & Company.

All of this is bringing us new vitality and greater aggressiveness. We are determined to be more future-oriented, more market-oriented, and more growth-oriented. We recognize that the opportunity to expand sales and share of market exists within our present facilities.

The immediate outlook for 1975 reflects the severity of national and international economic problems. We face, as others do, a very difficult time. While we share the concern over efforts to resolve the problems of inflation, recession, energy and unemployment, we are optimistic about the future.

We are especially confident of the capability of our Company to meet challenges. Marshall Field & Company has not only survived the varying fortunes of a century and more but has steadily grown and prospered.

We are vigorously seeking greater sales, exercising stringent expense and inventory controls, and striving to improve profitability. However troubled the present times, we are confident of the further progress of your Company and dedicated to its achievement.

John Burnham

President

April 25, 1975

Marshall Field & Company

The Williamsburg Shop

The Company has traditionally offered a wide range of merchandise with emphasis upon the finest quality, distinctive shopping atmosphere, personal service and customer satisfaction. At present there are 29 stores: Marshall Field & Company serving the Chicago metropolitan market and Milwaukee; Frederick & Nelson in Seattle; Halle's in Cleveland, Canton and Akron, Ohio, and Erie, Pennsylvania; and The Crescent in Spokane.

Marshall Field & Company's State Street store is famous throughout the world. The largest retail facility anywhere, it offers innovative and contemporary merchandise presentations from the old-fashioned ice cream parlour, The Crystal Palace, shown on the inside front cover of this report, to The Williamsburg Shop, above, and Books and China, on the following pages. Included in Books is an Antiquarian Room with rare books and fine bindings, antique maps and prints.

China

The 13 stores comprising the Chicago Stores Division are the State Street store, 2,225,000 square feet; CherryVale, 115,000; Evanston, 114,000; Fox Valley, 250,000; Hawthorn Center, 259,000; Lake Forest, 16,000; Mayfair, 290,000; Oakbrook, 375,000; Oak Park, 124,000; Old Orchard, 445,000; Park Forest, 116,000; River Oaks, 264,000; and Woodfield, 355,000.

Two new stores are under construction, a 170,000-square-foot facility in Water Tower Place, scheduled to open later this year, and a 200,000-square-foot unit in the Orland Park Shopping Center, southwest of Chicago, opening next year.

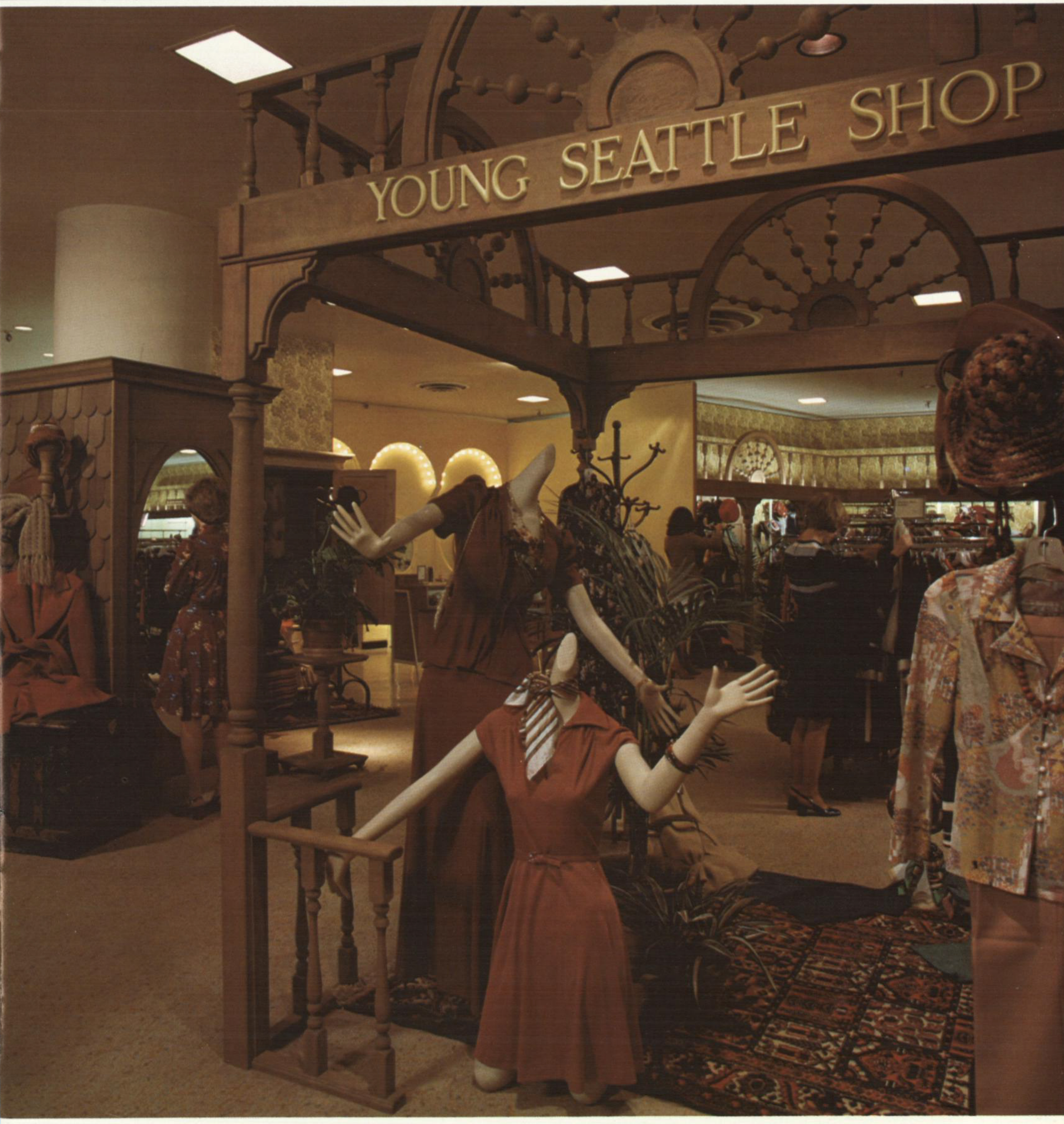
The Company's wholly-owned real estate subsidiary, Mafco, Inc., is co-venturer in these two projects.

Books

Frederick & Nelson

Frederick & Nelson is the leading quality retailer in Seattle, the cosmopolitan center of the Pacific Northwest. It has been a part of Marshall Field & Company for nearly half a century. Among the areas recently remodeled are the Wareroom, left, featuring a selection of Early American furnishings and accessories and, opposite, the Young Seattle Shop, offering a collection of dresses and sportswear for juniors. The Frederick & Nelson downtown store is 746,000 square feet and its outlying stores are Aurora Village, 150,000; Bellevue, 158,000; and Southcenter, 175,000.

Wareroom


YOUNG SEATTLE SHOP

Young Seattle Shop

Halle's

Halle's has a long-established reputation for quality and fashion leadership. It serves the Cleveland market and has stores in Canton and Akron, Ohio, and Erie, Pennsylvania, as well. It has an extensive program of remodeling and updating key merchandise areas. Typical are the Crossroads Market, left, featuring antique accessories from copper kettles to brass andirons and fireplace screens; and The Specialty Shop, opposite, presenting fashions from leading young American designers. Halle's has nine stores, the downtown Cleveland store, 606,000 square feet; Belden Village, 52,000; Millcreek Mall, 90,000; West Erie Plaza, 34,000; Severance, 168,000; Shaker Square, 34,000; Southland, 148,000; Summit Mall, 111,000; and Westgate 194,000.

Crossroads Market

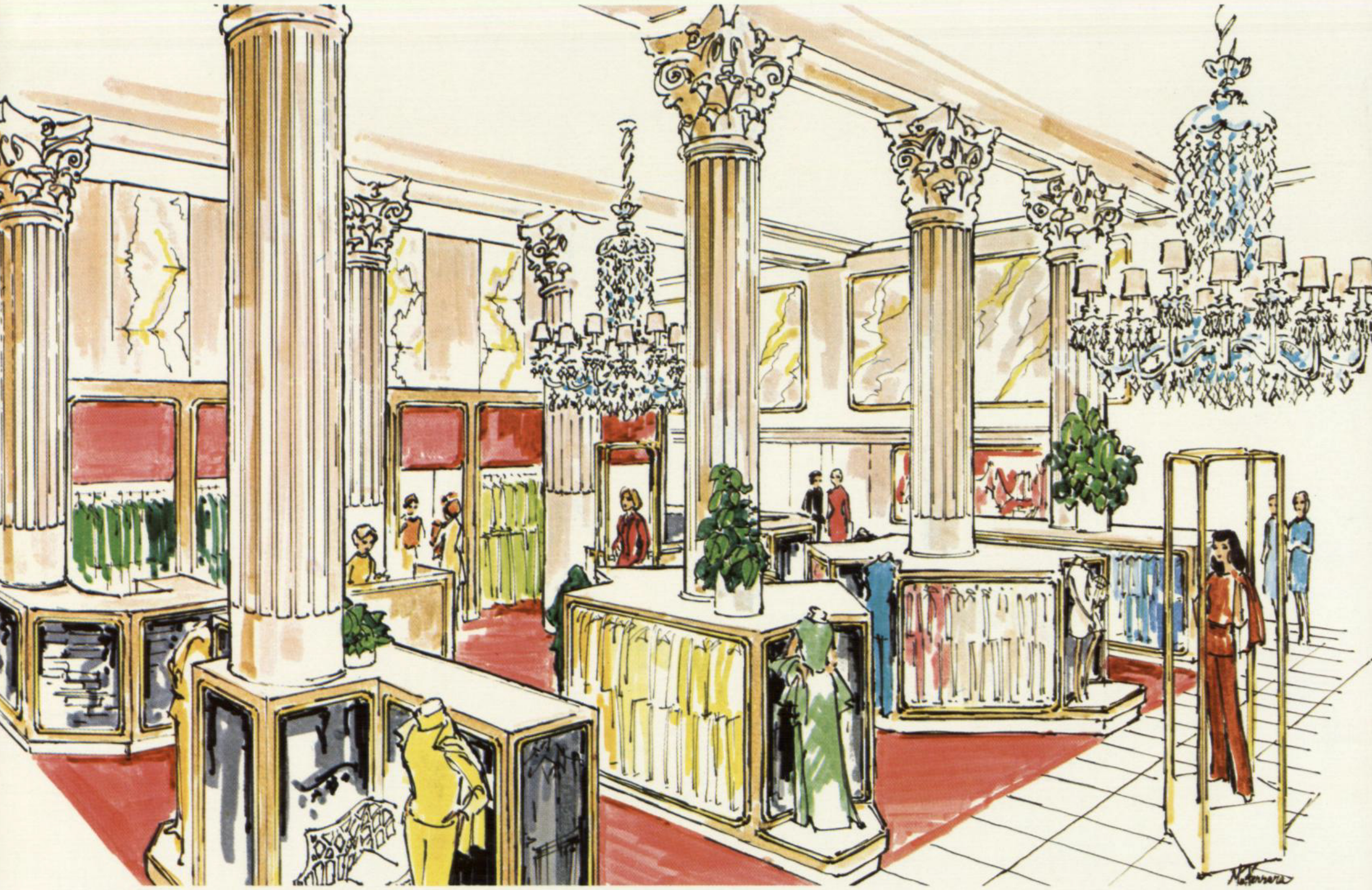
The Crescent

The Pewter Shop

The Crescent is Spokane's leading retailer, serving not only the city and its outlying areas, but the extensive inter-mountain market known as the Inland Empire. Spokane last year was host to EXPO '74, the first environmental world's fair. For the fair, The Crescent remodeled and enlarged the downtown store. Shown on these pages are two of the new shops, The Pewter Shop, above, and Pacesetter, opposite. The Crescent stores include the downtown Spokane store, 425,000 square feet, and two shopping center stores, Northtown, 91,000 and University City, 104,000.

Pacesetter

Expansion



Two views of projects now in progress: The remodeling of the first floor, State Street store . . .

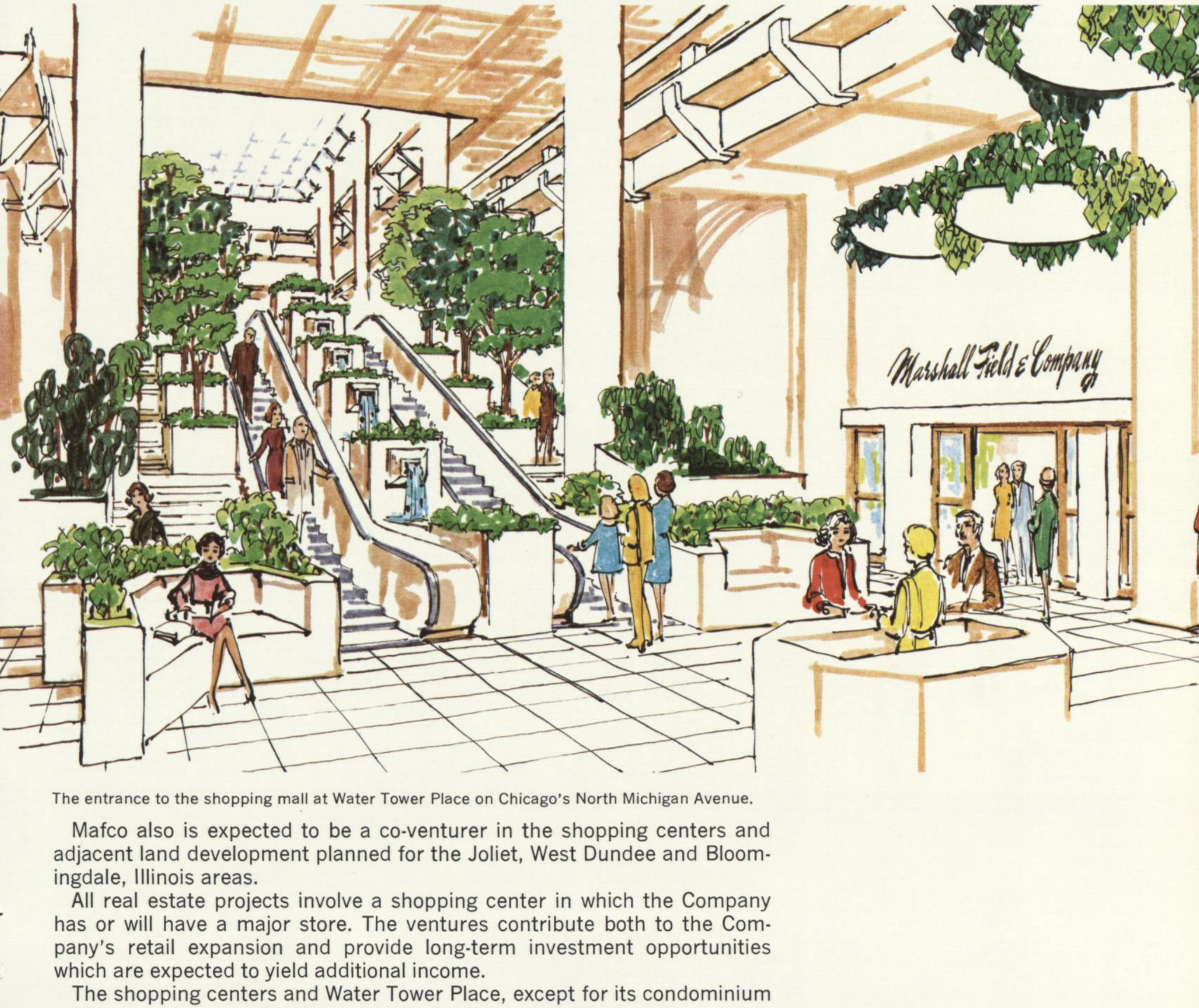
The Company's expansion program includes the following new stores:

Location	Square Feet	Planned Opening
Water Tower Place, Chicago, Ill.	170,000	Fall 1975
Orland Park, Ill.	200,000	Spring 1976
Joliet, Ill. area	150,000	—
West Dundee, Ill. area	150,000	—
Bloomingdale, Ill.	150,000	—
Total	820,000	

These new stores will increase present retail facilities by 10 per cent.

Mafco, Inc., a wholly-owned subsidiary of the Company, is a co-venturer in the following real estate projects:

Location	Nature of Project	Mafco's Ownership Interest
Water Tower Place, Chicago, Ill.	Urban center	½
Hawthorn Center, Vernon Hills, Ill.	Shopping center	⅔
New Century Town, Vernon Hills, Ill.	New town	⅓
Westbrook, Aurora, Ill.	New town	⅓
Orland Park, Ill.	Shopping center, residential and commercial	⅓



The entrance to the shopping mall at Water Tower Place on Chicago's North Michigan Avenue.

Mafco also is expected to be a co-venturer in the shopping centers and adjacent land development planned for the Joliet, West Dundee and Bloomingdale, Illinois areas.

All real estate projects involve a shopping center in which the Company has or will have a major store. The ventures contribute both to the Company's retail expansion and provide long-term investment opportunities which are expected to yield additional income.

The shopping centers and Water Tower Place, except for its condominium apartments, are expected to be held for rental income. The land adjacent to shopping centers is to be developed and then for the most part sold to others for the construction of housing, commercial buildings, etc.

Mafco's initial investment in each venture generally is its share of the cost of acquiring the land. Projects being held for rental income will have long-term financing under mortgages on the real estate with no liability to Mafco other than its equity in the property. Construction and other interim financing for all ventures is obtained mainly from bank loans for which Mafco is jointly and severally liable as a guarantor. Under all real estate financing, Marshall Field & Company has no liability other than its investment in Mafco.

Additional information on the real estate projects appears in note 4 to the financial statements on pages 29-31.

Ten Year Summary

(in thousands of dollars)

Fiscal Year	1974	1973	1972
Operating Results			
Net Sales	$547,600	$521,908	$492,794
Cost of Sales, including buying and occupancy expenses	387,857	368,893	345,457
Gross Margin	159,743	153,015	147,337
Selling, General and Administrative Expenses	120,475	112,927	105,298
Income before Interest and Income Taxes	39,268	40,088	42,040
Interest Expense	1,579	1,390	1,377
Interest Income	(315)	(955)	(311)
Interest Capitalized	(1,318)	(907)	(589)
Income before Income Taxes	39,322	40,560	41,563
Per cent of Sales	7.2	7.8	8.4
Income Taxes	19,012	19,658	20,106
Net Income	20,310	20,902	21,457
Per cent of Sales	3.7	4.0	4.4
Preferred Dividend Requirement	65	78	96
Net Income Applicable to Common Stock	20,246	20,824	21,362
Per Common Share (4)	2.24	2.30	2.34
Common Dividends Declared	11,227	11,096	10,399
Per Common Share (4)	1.24	1.22½	1.14
Net Income Retained	9,019	9,728	10,963
Average Number of Common Shares Outstanding (in thousands) (4)	9,054	9,069	9,122
Capital Expenditures—			
Modernization and Replacement	5,872	4,656	3,910
Expansion	13,122	13,324	3,841
Total	18,994	17,980	7,751
Depreciation	7,563	6,781	6,588
Financial Position			
Accounts Receivable	$ 85,775	$ 84,121	$ 77,835
Merchandise Inventories	83,805	83,932	82,099
Working Capital	109,462	109,595	113,425
Net Property and Equipment	132,568	121,929	111,342
Long-Term Debt	23,735	24,956	26,437
Common Stockholders' Equity	220,077	211,040	203,195
Per Common Share (4)	24.31	23.31	22.27
Stores (end of year)			
Number of Stores	28	28	26
Total Store Area (in thousands of square feet)	7,984	7,917	7,490

Notes:

(1) 1974 reflects adoption of the last-in, first-out method for substantially all inventories not previously valued under this method. This accounting change had the effect of decreasing net income for 1974 by $1,173,000, or 13 cents per common share (note 1b, page 28).

(2) Operating results include The Halle Brothers Company beginning with December 1970 under purchase accounting. Financial position and store statistics at the end of 1970 and subsequent years reflect the Halle merger.

1971	1970	1969	1968	1967	1966	1965
$466,689	$401,883	$402,507	$386,287	$371,025	$349,217	$329,100
329,272	283,526	281,896	271,319	261,626	246,835	232,202
137,416	118,357	120,611	114,968	109,399	102,381	96,899
99,440	86,414	83,972	79,618	75,617	70,266	66,355
37,976	31,943	36,639	35,350	33,782	32,115	30,543
1,664	1,146	933	904	953	967	1,120
(183)	(1,090)	(1,299)	(809)	(500)	(533)	(659)
(556)	(282)	—	—	—	—	—
37,052	32,168	37,005	35,255	33,329	31,682	30,083
7.9	8.0	9.2	9.1	9.0	9.1	9.1
18,000	16,089	19,448	18,007	15,653	14,971	14,273
19,052	16,079	17,557	17,248	17,676	16,710	15,810
4.1	4.0	4.4	4.5	4.8	4.8	4.8
108	19	—	—	—	—	—
18,944	16,060	17,557	17,248	17,676	16,710	15,810
2.08	1.82	2.01	1.97	2.01	1.91	1.81
10,034	9,718	9,533	8,484	8,441	8,434	7,771
1.10	1.10	1.10	1.00	1.00	1.00	.92½
8,909	6,333	8,024	8,763	9,235	8,276	8,038
9,122	8,805	8,752	8,776	8,774	8,769	8,754
2,949	3,587	3,116	3,658	3,647	2,920	3,214
10,124	6,208	2,828	7,059	5,730	7,253	6,273
13,073	9,795	5,944	10,717	9,377	10,173	9,487
6,183	6,070	5,923	5,833	5,639	5,278	5,303
$ 78,423	$ 81,859	$ 63,963	$ 60,699	$ 56,867	$ 52,816	$ 48,943
77,751	73,732	65,632	61,218	59,699	55,843	50,322
102,555	104,211	101,826	94,307	90,490	84,494	80,982
112,029	105,788	92,119	92,119	87,806	84,394	79,645
28,138	29,911	23,500	23,600	23,700	23,800	23,900
192,202	183,257	170,445	162,826	154,596	145,088	136,728
21.07	20.09	19.51	18.61	17.59	16.54	15.60
26	25	15	15	14	14	13
7,490	7,131	5,657	5,657	5,442	5,442	5,103

(3) 1968 and prior years have been restated to include The Crescent under pooling of interests accounting.

(4) Adjusted to reflect two-for-one stock split effective May 14, 1969.

Financial Review

Management's Discussion and Analysis

The Ten Year Summary, on the two preceding pages, presents an overview of the financial information concerning your Company. The Financial Statements with accompanying Notes, beginning on page 24, reflect the Company's operating results and financial position. This review includes management's discussion and analysis of results of operations, finances, and other factors that have affected your Company.

Operating Results

Net income in 1974 was $20,310,000, or $2.24 per share, a decrease of 2.8 per cent from the prior year. A change in inventory accounting method to eliminate inflationary profits, as described below, reduced net income in 1974 by $1,173,000, or 13 cents per share. Earnings in 1973 were 2.6 per cent below the record 1972 level equal to $2.34 per share. Income before taxes of $39,322,000 in 1974 represented 7.2 per cent of sales compared with 7.8 and 8.4 per cent in 1973 and 1972, respectively.

Sales increased 4.9 per cent in 1974. Since this increase was less than the rate of inventory price inflation for department store merchandise, unit volume of business was lower than 1973.

For the first nine months of 1974, net income increased 9.6 per cent and sales 8.0 per cent. In the fourth quarter, which historically provides about half of annual earnings, net income declined 14.9 per cent and sales 1.3 per cent, reflecting the national economic decline.

To meet this economic downturn, the Company reduced inventories on a pre-planned basis. Expenses were also effectively controlled with emphasis on maximum productivity. Aggressive sales promotion programs were given increased emphasis. Because of our sound inventory position, the Company did not find it necessary to resort to the price cutting which was prevalent in the retail industry during the past Christmas selling season. As a result, it is believed that the Company achieved maximum net income from the sales obtained during that important period.

The earnings trend during 1972-1974 also was strongly influenced by both inflation and Phase IV of the U.S. economic control program in effect during the last half of 1973. This is reflected in our gross margin after deducting cost of sales including buying and occupancy expenses. Under the impact of Phase IV, this margin fell from 29.9 per cent of sales in 1972 to 29.3 per cent in 1973. With the removal of artificial pricing restraints and reflecting the change in inventory accounting method, gross margin was maintained at 29.2 per cent in 1974. This was essential in view of the effect of inflation on selling, general and administrative expenses, which were 21.4 per cent of sales in 1972, 21.6 in 1973 and 22.0 in 1974.

Interest expense increased in 1974 as the result of higher rates and the need for additional borrowing. A higher level of excess funds, invested seasonally on a short-term basis, resulted in greater interest income in 1973 compared with 1974 and 1972. Interest capitalized increased each of the last two years, reflecting higher investment in real estate joint ventures and, in 1974, higher interest rates. Capitalization of interest is explained in note 1h, page 29.

The principal business of the Company and its subsidiaries is the operation of department stores. In the last two fiscal years, none of the merchandise or services classified by the Company as similar accounted for as much as 10 per cent of consolidated net sales. Outlying stores produced 55 per cent of the Company's 1974 volume. Revenues and income before income taxes attributable to real estate investments were not significant.

Adoption of LIFO

The last-in, first-out (LIFO) method of accounting has been adopted for substantially all inventories effective for our 1974 fiscal year. At the end of the prior fiscal year, inventories were valued at the lower of cost or market on a first-in, first-out basis (FIFO), except for 15 per cent valued on the LIFO basis.

The LIFO method matches revenues more closely with the cost of goods sold at current prices. During inflationary periods this method has the advantage of stating earnings more realistically by removing inventory price profits. It also conserves cash, which otherwise would be paid as income taxes on such profits.

Adoption of LIFO for those inventories previously valued on the FIFO method had the effect of removing inventory price profits from 1974 net income in the amount of $2,760,000, or 30 cents per common share. This was partially offset by a one-time credit of $1,587,000, or 17 cents per share, in order to increase the value of such inventories as of February 1, 1974, from the lower of cost or market to cost, as required for LIFO. The combined effect of adopting LIFO on 1974 net income was a reduction of $1,173,000, equal to 13 cents per share.

Credit

As a service to customers, the Company offers several different credit plans. The plans vary somewhat in different markets, depending upon competitive conditions and legal requirements. In general, customers can pay within 30 days or on an installment basis.

Credit sales were 65 per cent of total business last year. Installment sales were 32 per cent of total credit volume. Over the long-term, an increasing share of our business is being done on installment terms. Uncollectible accounts were only .2 per cent of 1974 credit sales, and collection of receivables continues to be excellent.

Dividends

Dividends of $1.24 per common share were declared in 1974 compared with $1.22½ in the previous year. As the result of four increases, the current rate is 38 per cent higher than it was ten years ago. Divi-

The new Fox Valley Shopping Center store dends declared on common stock in 1974 were 55 per cent of available earnings, with the balance being invested in the Company's expansion program. The $1.24 dividend provided common stockholders a yield of 4.8 per cent based on the price of the stock at the end of March 1975.

Finances

The Company continues to be financially sound and is maintaining a strong cash position during the current recession when liquidity is essential.

Bank lines of credit total $35,000,000 at the prime rate. The Company began issuing commercial paper in the fall of 1974 to meet seasonal cash needs, which reached a maximum of $15,000,000. At January 31, 1975, no commercial paper or bank loans were outstanding, and temporary excess funds of about $5,000,000 were invested on a short-term basis. The Company anticipates short-term borrowing again in 1975.

Inventories of $83,805,000 were about the same as year-end 1973. Considering the rate of price inflation, this level reflects the Company's program to reduce inventories to maintain a proper relationship to sales during the present recession. At January 31, 1975, purchase commitments were $30,640,000, a 17 per cent reduction from a year earlier.

The present value of future minimum rental obligations on long-term financing leases is $17,300,000, as described in the financial statements (note 5, pages 31-32). This amount plus long-term debt of $23,735,000 represented 19 per cent of stockholders' equity, a conservative ratio which will assist the Company in financing its future retail growth and investments in real estate ventures.

Capital Expenditures

Outlays in 1974 were $18,994,000, including $13,122,000 for expansion which was primarily for the Millcreek Mall, Fox Valley and Orland Park stores. Expenditures in 1975 are expected to total $28,000,000. Major investments include the Fox Valley, Water Tower Place and Orland Park stores, renovation of the Old Orchard and other outlying units, the initial phase of modernizing the first floor of the State Street store, and the first stage of a two-year program to complete the installation of electronic sales registers in the Chicago Stores Division.

Administrative Changes

In the corporate organization, Mr. John A. Kroyer was appointed Vice President-Accounting; Mr. Paul R. Obert was appointed Vice President, Law Division; and Mr. H. John Toomire was named Assistant Comptroller.

Quarterly Data

Sales and Net Income
(in thousands of dollars)

Net Sales

Quarter	1974	1973	Per Cent Change
1st.......	$115,673	$108,152	7.0
2nd......	125,995	114,499	10.0
3rd.......	136,255	127,292	7.0
4th.......	169,677	171,965	(1.3)
Year......	$547,600	$521,908	4.9

Net Income

	1974 (1)		1973	
Quarter	Amount	Per Share	Amount	Per Share
1st.......	$ 2,647	$ .29	$ 2,564	$ .28
2nd......	3,659	.40	3,164	.35
3rd.......	4,942	.54	4,530	.50
4th.......	9,063	1.00	10,644	1.17
Year.....	$20,310	$2.24	$20,902	$2.30

(1) Net income for the 1st, 2nd, and 3rd quarters has been restated to reflect the adoption in 1974 of the last-in, first-out method for substantially all inventories not previously valued under this method.

Dividends and Stock Prices per Share

The common stock is traded on the New York and Midwest Stock Exchanges. The prices shown below are those on the former exchange.

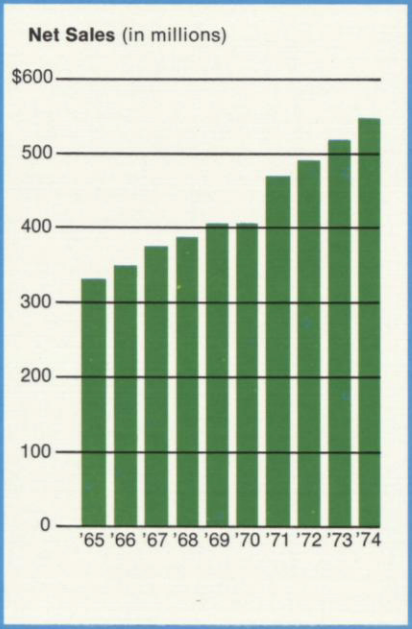
Dividends Paid

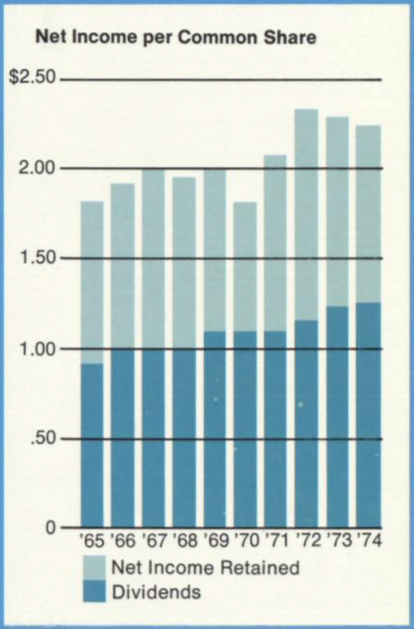
Quarter	1974	1973
1st....................	.31	.29½
2nd...................	.31	.29½
3rd...................	.31	.31
4th....................	.31	.31

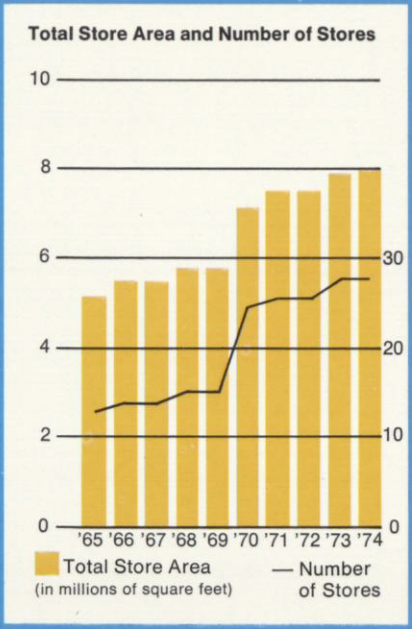
Market Price

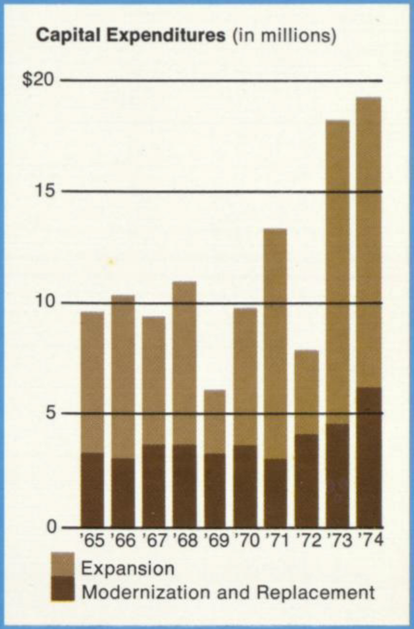
Quarter	1974		1973	
	High	Low	High	Low
1st..........	20¾	17½	33⅞	26
2nd.........	21¼	17⅛	28	21½
3rd.........	18⅞	14¼	26½	22¼
4th.........	20½	12¼	24	15⅝

FINANCIAL CHARTS


Net Sales (in millions)


Net Income per Common Share


Total Store Area and Number of Stores


Capital Expenditures (in millions)

Consolidated Statement of Income and Retained Earnings

	Fiscal Year Ended	
	January 31, 1975	January 31, 1974
Net Sales	$547,599,874	$521,907,930
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	$456,274,386	$434,410,271
Advertising	16,325,940	14,485,260
Taxes other than income taxes	17,710,031	16,480,056
Depreciation (note 1c)	7,562,999	6,780,762
Maintenance and repairs	6,250,595	5,811,725
Rentals paid (note 5)	4,208,029	3,851,837
Interest expense	1,578,855	1,389,658
Interest income	(315,496)	(955,228)
Interest capitalized (notes 1a and 1h)	(1,317,634)	(906,640)
Total costs (note 2)	$508,277,705	$481,347,701
Income before Income Taxes	$ 39,322,169	$ 40,560,229
Income taxes (note 1d)	19,012,000	19,658,000
Net Income	$ 20,310,169	$ 20,902,229
Retained Earnings at beginning of year	175,426,299	165,698,776
	$195,736,468	$186,601,005
Cash dividends declared on:		
Cumulative preferred stock—		
Series A, $2.40 per share	$ 29,990	$ 36,986
Series B, $3.00 per share	34,425	41,400
Common stock—$1.24 and $1.22½ per share, respectively	11,226,669	11,096,320
	$ 11,291,084	$ 11,174,706
Retained Earnings at end of year (note 8)	$184,445,384	$175,426,299
Net Income per Common Share (average shares outstanding 9,053,765 and 9,069,146, respectively)	$ 2.24	$ 2.30

See notes to financial statements on pages 28 through 33.

Consolidated Statement of Changes in Financial Position

	Fiscal Year Ended	
	January 31, 1975	January 31, 1974
Working Capital Provided:		
Net income	$ 20,310,169	$ 20,902,229
Add items not requiring the use of working capital—		
Depreciation	7,562,999	6,780,762
Increase in long-term deferred income taxes and investment credit	4,104,967	3,072,302
Working capital provided from operations	$ 31,978,135	$ 30,755,293
Sales of land and buildings	244,876	—
Other	546,206	611,867
	$ 32,769,217	$ 31,367,160
Working Capital Used:		
Additions to property and equipment	$ 18,993,768	$ 17,979,682
Investments in real estate ventures	1,052,705	2,619,433
Dividends	11,291,084	11,174,706
Purchases of Company stock (note 9)	343,316	1,942,671
Reduction in long-term debt	1,221,356	1,480,505
	$ 32,902,229	$ 35,196,997
Decrease in Working Capital	$ (133,012)	$ (3,829,837)
Increases (Decreases) in Working Capital:		
Cash and short-term investments	$ 3,226,144	$ (10,535,641)
Receivables	1,653,113	6,286,441
Merchandise inventories (note 1b)	(127,134)	1,833,237
Prepaid expenses	160,367	(60,820)
Accounts payable	(3,973,018)	(1,884,877)
Accrued liabilities	(1,127,077)	(1,261,022)
Income taxes	(204,518)	1,822,382
Current maturities of long-term debt	259,111	(29,537)
Decrease in Working Capital	$ (133,012)	$ (3,829,837)

See notes to financial statements on pages 28 through 33.

Consolidated Balance Sheet

ASSETS

	January 31, 1975	January 31, 1974
Current Assets:		
Cash	$ 8,006,950	$ 8,771,397
Commercial paper, at cost (approximates market)	4,988,938	998,347
Receivables, less allowance of $1,579,000 and $1,479,000, respectively, for doubtful accounts.	85,774,556	84,121,443
Merchandise inventories (note 1b)	83,804,742	83,931,876
Prepaid expenses	3,848,997	3,688,630
Total Current Assets	$186,424,183	$181,511,693
Investments in Real Estate Ventures (notes 1a, 1h and 4)	$ 14,797,565	$ 13,744,860
Property and Equipment, at cost:		
Land	$ 22,443,753	$ 21,861,953
Buildings	132,716,793	123,077,381
Equipment	54,797,328	48,599,242
	$209,957,874	$193,538,576
Less accumulated depreciation	77,389,433	71,609,822
Net Property and Equipment	$132,568,441	$121,928,754
	$333,790,189	$317,185,307

See notes to financial statements on pages 28 through 33.

LIABILITIES

	January 31, 1975	January 31, 1974
Current Liabilities:		
Accounts payable	$ 28,376,745	$ 24,403,727
Accrued liabilities	33,365,248	32,238,171
Income taxes (note 1d)—		
Current	4,554,609	5,977,760
Deferred	9,443,880	7,816,211
Current maturities of long-term debt	1,221,356	1,480,467
Total Current Liabilities	$ 76,961,838	$ 71,916,336
Long-Term Debt, less current maturities (note 6)	$ 23,734,772	$ 24,956,128
Deferred Income Taxes (note 1d)	$ 9,899,111	$ 5,902,780
Deferred Investment Credit (note 1e)	$ 1,990,226	$ 1,881,590
Stockholders' Equity:		
Preferred Stock—		
Authorized 1,000,000 shares of $1 par value, issuable in series; issued at par value:		
Series A, $2.40 cumulative dividend; redemption and liquidation value $597,272; 13,719 and 15,719 shares, respectively	$ 13,719	$ 15,719
Series B, $3.00 cumulative dividend; redemption and liquidation value $530,400; 18,600 and 19,200 shares, respectively	18,600	19,200
Common Stock—		
Authorized 20,000,000 shares of $1 par value; 9,154,971 shares issued at par value	9,154,971	9,154,971
Additional Paid-in Capital (note 7)	30,795,974	30,917,712
Retained Earnings (note 8)	184,445,384	175,426,299
	$224,428,648	$215,533,901
Less treasury stock, at cost (note 9)	3,224,406	3,005,428
Total Stockholders' Equity	$221,204,242	$212,528,473
	$333,790,189	$317,185,307

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of intercompany accounts and transactions. Investments in real estate ventures are carried at cost (including capitalized interest) plus the equity of the Company's subsidiary in the ventures' net income or losses.

b. Inventory Pricing

Substantially all merchandise inventories at January 31, 1975 are valued at last-in, first-out (LIFO) cost, which is not in excess of market. Inventories at January 31, 1974 were valued at the lower of cost or market by use of the retail inventory method applied on a first-in, first-out (FIFO) basis, except for 15% valued by the LIFO method. If the FIFO method had been used, inventories would have been $9,030,000 and $5,305,000 higher than reported at January 31, 1975 and January 31, 1974, respectively.

The LIFO method has been adopted for substantially all inventories because it more closely matches current costs with current revenues in periods of price level changes. Under the LIFO method, income is determined by matching selling prices with the most recent merchandise costs. During periods of continuing inflation this has the advantage of stating earnings more realistically by removing inventory price profits from earnings and conserving cash by eliminating income taxes on such profits.

Adoption of the LIFO method for those inventories valued by the FIFO method in previous years had the effect of removing inventory price profits from 1974 net income in the amount of $2,760,000, or 30 cents per common share. These amounts were partially offset by a one-time increase in net income of $1,587,000, or 17 cents per common share, to adjust the value of inventories as of February 1, 1974 to cost from the lower of FIFO cost or market, as required under the LIFO method. The combined effect of these accounting changes was to reduce net income by $1,173,000, or 13 cents per common share. It is not possible to determine what the effect would have been on net income and net income per common share of prior years, or what the cumulative effect on retained earnings as of February 1, 1974 would have been, if LIFO had been used for substantially all inventories in prior years.

c. Depreciation

Buildings and equipment are depreciated on a straight-line basis over their estimated useful lives for book purposes. Accelerated depreciation is used for income tax purposes.

d. Income Taxes

The Company provides currently for income taxes applicable to all items included in the income statement regardless of when such taxes are payable. Deferred income taxes included in current liabilities arise primarily from deferred income on uncollected installment sales while long-term deferred income taxes arise from accelerated depreciation and the tax effect of certain differences between the book and tax basis of real estate joint venture assets. The provision for income taxes consists of the following:

	Fiscal Year	
	1974	1973
Taxes currently payable—		
Federal	$12,326,000	$15,531,000
State	1,062,000	1,090,000
Deferred taxes (including nominal amounts of state income taxes) arising from—		
Uncollected installment sales	722,000	231,000
Accelerated depreciation	2,002,000	1,226,000
Real estate joint ventures	1,994,000	1,360,000
Other	906,000	220,000
	$19,012,000	$19,658,000

The differences between the provisions for Federal income taxes and the amounts derived from applying the 48% statutory rate to pre-tax income resulted primarily from state income taxes.

e. Investment Tax Credit

Investment tax credits of $353,000 and $684,000 for 1974 and 1973, respectively, have been deferred and are being amortized as a reduction of the income tax provisions over the depreciable lives of the related equipment. Such amortization was $244,000 and $198,000 for 1974 and 1973, respectively.

f. Retirement Plans

The retirement plans cover, subject to certain length-of-service requirements, substantially all full-time employes. It is the Company's present policy to charge income annually with the cost of pensions earned by employes during the year. For the plan covering most employes, this charge is increased by interest on unfunded pension liability or decreased by amortization over a 20-year period of the excess of trust fund assets over pension liability, whichever is applicable. Retirement plan expense was $2,677,000 and $2,543,000 for 1974 and 1973, respectively. The present policy is to fund currently each year's total expense. The pension fund assets exceeded the computed value of the vested benefits as of the last valuation date.

Based upon information currently available to the Company and its actuaries, the Employee Retirement Income Security Act of 1974 is not expected to have a significant effect upon the consolidated cost of the pension plans, periodic funding of pension costs, or unfunded vested benefits.

g. Store Pre-Opening Expenses

Store pre-opening expenses are charged to income in the year the expenses are incurred.

h. Interest Capitalization

Since the inception of its real estate investment program in 1970 Mafco, Inc., a wholly-owned subsidiary, has consistently followed the policy of capitalizing interest on its equity investments in real estate joint ventures (essentially represented by the cost of land) during their development periods in order to match such interest costs with revenues to be realized subsequently. Interest capitalized by Mafco has been computed at the lower of the prime rate or the rate paid by Marshall Field & Company on its commercial paper issued from time to time. Net income for 1974 and 1973 would have been reduced by $685,000 and $471,000, respectively, if interest had been charged to expense as incurred.

(2) Total costs as reported to the Securities and Exchange Commission are classified as follows:

	Fiscal Year	
	1974	1973
Cost of goods sold, buying and occupancy expenses	$387,856,633	$368,893,201
Selling, general and administrative expenses	120,475,347	112,926,710
Interest expense	1,578,855	1,389,658
Interest income	(315,496)	(955,228)
Interest capitalized	(1,317,634)	(906,640)
	$508,277,705	$481,347,701

(3) The Company has bank lines of credit amounting to $35,000,000 at the prime lending rate. In most instances the Company's operating balances are used to support both the banking activity and as compensating balances for the lines of credit. Typically such balances, as shown on the books of the banks, on average are maintained at a minimum of 10% of the lines of credit. In 1974, the Board of Directors authorized the issuance of commercial paper to meet short-term financing requirements up to a maximum of $34,000,000. It is the Company's policy to maintain at all times unused bank lines of credit equal to or exceeding the amount of commercial paper outstanding. During 1974, the maximum aggregate short-term debt outstanding from bank borrowing and commercial paper was $14,350,000. The average annual amount of short-term debt outstanding was $4,069,000 and the average rate of interest paid on this debt was 10.3% based on interest paid and the average debt outstanding.

(4) Mafco, Inc., a wholly-owned consolidated subsidiary, is a co-venturer in the Water Tower Place, Hawthorn Center, New Century Town, Westbrook and Orland Park real estate joint ventures.

Water Tower Place (½ Mafco interest) is constructing an urban center on North Michigan Avenue in Chicago. Completion is scheduled for 1975-1976. It will include a department store to be leased to the Company, other retail facilities, offices, condominium apartments, and a hotel operated by a joint venture in which Water Tower Place is a 50% co-venturer.

Hawthorn Center (⅔ Mafco interest) has developed a regional shopping center in Vernon Hills, north of Chicago. The center, which opened in the fall of 1973, includes a department store owned by the Company.

New Century Town (⅓ Mafco interest) adjacent to Hawthorn Center, and Westbrook (⅓ Mafco interest) are developing land for new communities including housing and supporting community facilities. Westbrook is in Aurora, west of Chicago; a regional shopping center adjoining Westbrook will open in 1975 and includes a department store owned by the Company which opened in February 1975.

Orland Park Venture (⅓ Mafco interest) southwest of Chicago is constructing a regional shopping center and developing adjacent land for residential and commercial properties. The center is scheduled to open in 1976. In addition, the Company is constructing in the project a department store owned by the Company.

It is planned that the land owned by New Century Town and Westbrook and the land adjacent to the Orland Park shopping center will, for the most part, be sold to other developers for construction of housing and related real estate facilities.

Mafco also is expected to be a co-venturer in shopping centers and adjacent land development planned for the Joliet, West Dundee and Bloomingdale, Illinois areas. The Company will have a major store in each shopping center.

Net income of Mafco, Inc. for the fiscal years ended January 31, 1975 and 1974 was not significant, and included Mafco's equity in the net income or losses of the real estate joint ventures for their fiscal years ended on the preceding December 31. The combined balance sheet of the ventures as of December 31, 1974 is as follows:

COMBINED BALANCE SHEET AS OF DECEMBER 31, 1974 (in thousands)

Assets

Commercial rental property at cost, net of accumulated depreciation		$ 20,589
Property under development, at cost—		
Water Tower Place	$ 69,483	
Other	35,459	
		104,942
Deferred Expenses		3,037
Cash, accounts and notes receivable, and other assets		4,569
		$133,137

Liabilities and Venturers' Capital

Development and construction loans from venturers (see comments below)	$ 71,270
Long-term first mortgage loan (not guaranteed by Mafco)	21,000
Accounts and retentions payable	9,400
Accruals and other liabilities	2,830
Total liabilities	$104,500
Venturers' capital—	
Mafco, Inc.	$ 11,964
Other venturers	16,673
Total venturers' capital	$ 28,637
	$133,137

Of the $71,270,000 in development and construction loans shown in the above combined balance sheet, $66,857,000 has been provided by a group of banks under a revolving credit agreement with one of the venturers. Mafco and certain of its co-venturers have jointly and severally guaranteed repayment of these loans to the banks. It is anticipated that repayments will be made from the proceeds of long-term mortgages, sales of venture properties, and the Water Tower Place construction loan described below.

The total cost of Water Tower Place is presently estimated to be $165,000,000. The venture has a $130,000,000 construction loan commitment from a group of banks. Mafco and its co-venturer, Urban Investment & Development Co., a subsidiary of Aetna Life and Casualty Company, have jointly and severally guaranteed repayment of loans under this commitment. It is anticipated that repayments will be made from proceeds of a long-term mortgage and sales of condominium apartments. Water Tower Place has a long-term mortgage commitment for a minimum of $87,500,000 which will not be guaranteed by Mafco. This commitment covers all of the property except the condominium apartments and is subject to various conditions. A major condition is attainment of a minimum level of rental income by July 31, 1976. Management is of the opinion that this and all other conditions will be met.

Water Tower Place will contain 260 condominium units with an estimated aggregate sales value of $55,000,000. To protect against the contingency that all condominiums may not be sold by May 31, 1977, the maturity date of the construction loan, Mafco and its co-venturer have each arranged stand-by financing for up to $15,000,000 to be applied in discharge of the construction loan. If used, the $15,000,000 of financing arranged by Mafco would be repaid from proceeds of condominium sales and any remaining balance repaid at maturity on May 31, 1979. Mafco's maximum equity in Water Tower Place is expected to be $20,000,000 (of which $8,283,000 had been invested as of January 31, 1975), exclusive of any additional investment which may be required to finance unsold condominiums.

The estimated cost of the Orland Park shopping center, exclusive of the Company's store, is $30,000,000, which will be financed initially through the revolving credit agreement referred to above. Long-term financing is being negotiated, but has not as yet been arranged.

Under all real estate financing, Marshall Field & Company has no liability other than its investment in Mafco.

For financial reporting purposes, the joint ventures defer general development costs (consisting principally of architectural, engineering, and consultant fees) and carrying costs (consisting principally of interest and real estate taxes). Such costs are allocated to land and depreciable or saleable building components at such time as operations commence. Under this policy, the joint ventures had deferred interest of $7,028,000 and real estate taxes of $1,305,000 to December 31, 1974 included in property under development; of these amounts interest of $4,830,000 and real estate taxes of $493,000 were deferred during 1974. These carrying costs are deducted as incurred for income tax purposes. The net operating loss, which was not material, of Hawthorn Center for its first year of operation beginning October 1973 was deferred in accordance with the accounting policy of the venture, and also included 1974 charges of $1,614,000 for interest and $202,000 for real estate taxes. Costs of leasing and advertising during development and construction periods are deferred until operations commence, and are charged to income over the lives of the related leases or as sales occur.

(5) As of January 31, 1975, 21 stores in operation were leased wholly or in part. In addition, certain data processing and other equipment is leased.

The retail store leases have noncancellable terms expiring between 1977 and 2028 with various renewal options. Many of these leases require the payment of minimum annual rentals plus additional rentals contingent upon sales reaching certain levels. Certain of the leases also require the payment of taxes, insurance, and other costs applicable to the property. Equipment leases have noncancellable terms expiring between 1975 and 1978 with various renewal options.

All of the retail store leases and certain of the equipment leases are considered by the Company to be noncapitalized financing leases. Such leases, as defined by the Securities and Exchange Commission, are those which are not reported as a liability in the balance sheet, but which, during the initial noncancellable lease period, either cover 75% or more of the economic life of the property or have terms which assure the lessor of a full recovery of the fair market value of the property at the inception of the lease plus a reasonable return on the use of the assets invested.

Rentals paid under leases during the past two years were as follows:

	Noncapitalized financing leases	Other leases	Total
1974—Minimum rentals	$2,615,704	$673,574	$3,289,278
Additional rentals based upon sales	788,290	130,461	918,751
	$3,403,994	$804,035	$4,208,029
1973—Minimum rentals	$2,497,354	$629,007	$3,126,361
Additional rentals based upon sales	652,669	72,807	725,476
	$3,150,023	$701,814	$3,851,837

The future minimum annual rental requirements on noncancellable leases in effect at January 31, 1975, which had an initial or remaining term of more than one year, are as follows:

Fiscal Years	
1975	$ 2,904,370
1976	2,847,555
1977	2,491,611
1978	2,158,851
1979	1,671,021
1980-1984	7,746,041
1985-1989	7,346,058
1990-1994	5,526,542
Thereafter	10,894,722
	$43,586,771

The above rentals exclude real estate taxes, insurance, maintenance and other costs which are applicable to leased property and which are paid directly by the Company and its subsidiaries rather than the lessors.

The present values of future minimum annual rental requirements under noncapitalized financing leases (excluding estimated amounts of real estate taxes, insurance, maintenance and other costs applicable to the leased property) were approximately $17,300,000 at January 31, 1975, and $16,000,000 at January 31, 1974. Of these amounts, approximately $14,800,000 in 1975 and $13,100,000 in 1974 were applicable to retail store leases with the balances applicable to equipment. These present values were calculated using the estimated interest rates implicit in the individual leases which ranged from 4⅛% to 10% with the weighted average rate being 6¾%.

Had noncapitalized financing leases been capitalized, the effect on income for 1974 and 1973 would have been immaterial.

(6) The Company's long-term debt consists of:

	January 31	
	1975	1974
3¾% notes, payable $800,000 annually to 1981 and $15,000,000 in 1982	$19,800,000	$20,600,000
8% mortgage note, payable quarterly to 1995	2,644,618	2,699,688
4% mortgage bonds	—	274,900
5½% note, payable quarterly to 1986	1,290,154	1,381,540
	$23,734,772	$24,956,128

The aggregate minimum payments required on long-term debt in each of the five years following the fiscal year 1974 are shown below:

Fiscal Years	Amount
1975	$1,221,000
1976	956,000
1977	966,000
1978	978,000
1979	989,000

(7) Charges to additional paid-in capital, representing the excess of cost over par value of Series A and B preferred stock purchased and retired, amounted to $121,738 and $108,577 in 1974 and 1973, respectively.

(8) At January 31, 1975, $141,501,000 of retained earnings was available for dividends on common stock under the terms of the Company's long-term debt agreement for 3¾% notes.

(9) Treasury stock at cost consists of:

	Preferred Shares				Common Shares	
	Series A		Series B			
	Number	Amount	Number	Amount	Number	Amount
Balance January 31, 1973...	1,730	$ 69,285	6,000	$312,000	32,706	$ 792,649
Purchases...............	1,156	46,445	—	—	68,500	1,896,226
Retirements..............	(2,000)	(79,977)	(600)	(31,200)	—	—
Balance January 31, 1974...	886	$ 35,753	5,400	$280,800	101,206	$2,688,875
Purchases...............	3,347	156,116	3,600	187,200	—	—
Retirements..............	(2,000)	(93,138)	(600)	(31,200)	—	—
Balance January 31, 1975...	2,233	$ 98,731	8,400	$436,800	101,206	$2,688,875

(10) Lawsuits are pending in Ohio against Halle's, which are similar to those brought against other retailers, and which purport to be class actions, attacking the legality of certain credit and billing practices. The ultimate consequences of these actions to the Company are not presently determinable, but the management does not anticipate that recoveries from Halle's thereunder, if any, will have a material adverse effect on the business or consolidated financial position of the Company.

(11) Under the 1974 Incentive Stock Option Plan, officers and other key executives of the Company or its subsidiaries may receive options to purchase common shares at 100% of the fair market value of the shares at dates of grant. The aggregate number of shares which may be issued under options granted pursuant to the Plan is 300,000. The options granted become exercisable in cumulative equal amounts of 20% in the second through sixth years following the dates of grant. All options granted under the Plan expire ten years from date of grant. During the year ended January 31, 1975, options on 147,000 shares were granted, of which 4,500 were subsequently canceled. At January 31, 1975, options on 142,500 shares were outstanding at $20.50 per share, of which none were exercisable, and options on 157,500 shares were available for future grants.

Auditors' Report

ARTHUR ANDERSEN & CO.

To the Stockholders of Marshall Field & Company:

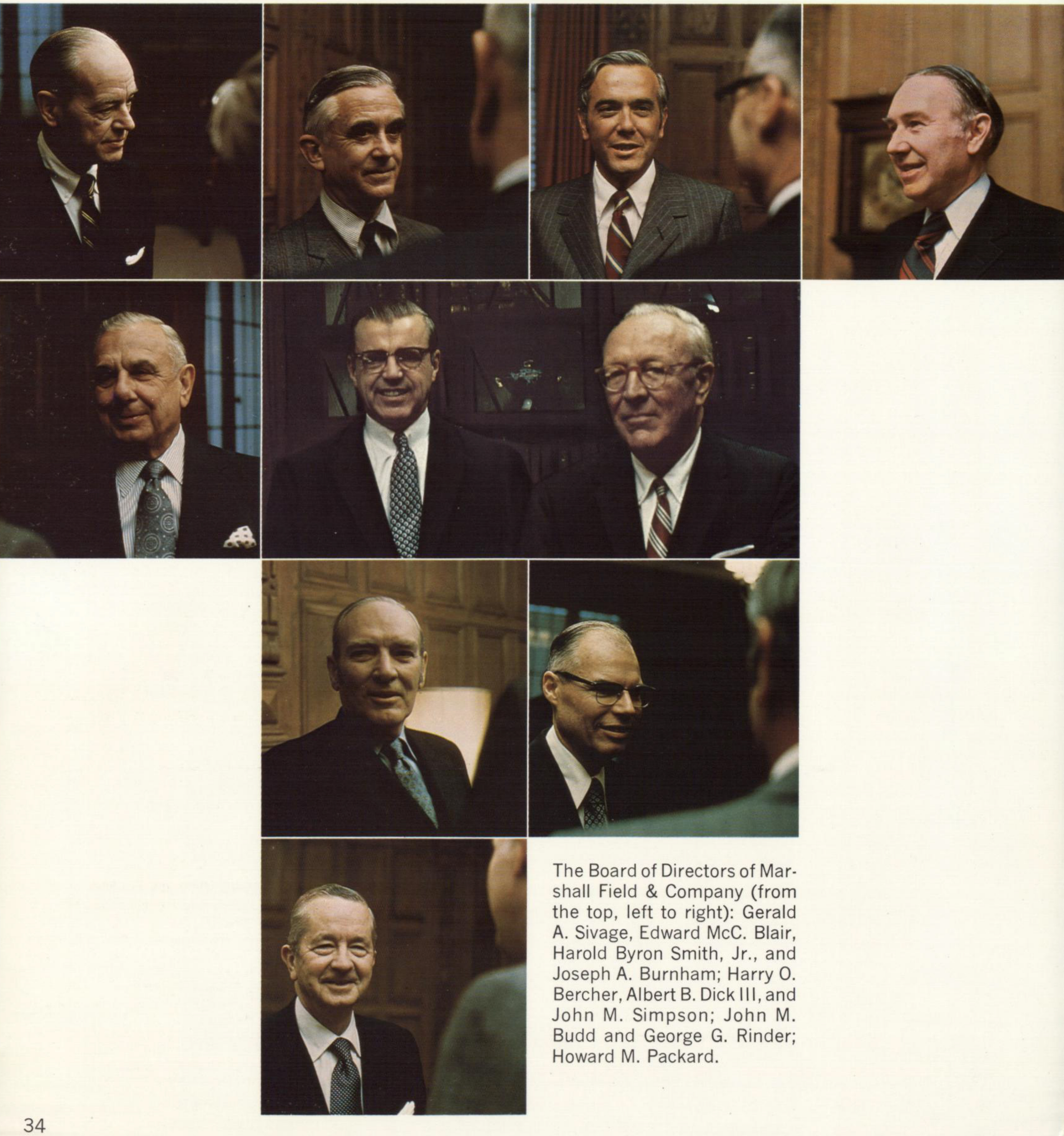
We have examined the consolidated balance sheet of Marshall Field & Company (a Delaware corporation) and subsidiaries as of January 31, 1975 and 1974 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully explained in the notes to financial statements, substantially all merchandise inventories at January 31, 1975 are valued at last-in, first-out (LIFO) cost. Merchandise inventories at January 31, 1974 are valued at the lower of cost or market by use of the retail inventory method applied on a first-in, first-out basis except for 15% valued by the LIFO method.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings and changes in financial position present fairly the financial position of Marshall Field & Company and subsidiaries as of January 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for inventories referred to in the preceding paragraph, were consistently applied during the periods.

March 31, 1975
Chicago, Illinois

Arthur Andersen & Co.



The Board of Directors of Marshall Field & Company (from the top, left to right): Gerald A. Sivage, Edward McC. Blair, Harold Byron Smith, Jr., and Joseph A. Burnham; Harry O. Bercher, Albert B. Dick III, and John M. Simpson; John M. Budd and George G. Rinder; Howard M. Packard.

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EDWARD McC. BLAIR, Managing Partner, William Blair & Company (investment bankers)

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JOHN M. SIMPSON, Chairman of the Board, A. M. Castle & Co. (distributors and processors of steel and other metals)

GERALD A. SIVAGE, Director and former President, Marshall Field & Company

HAROLD BYRON SMITH, JR., President, Illinois Tool Works Inc. (manufacturer of fasteners, tools, electronic components and plastic packaging products)

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Compensation Committee

ALBERT B. DICK III, Chairman
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CATHRYN H. NOLAN	Assistant Secretary
H. JOHN TOOMIRE	Assistant Comptroller
ROBERT A. WILBRANDT	Assistant Secretary and Senior Attorney

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Chicago Stores

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JOHN W. BASCHEN	General Merchandise Manager
LOREN A. DuBOIS	General Operating Manager

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LAWRENCE D. MOORE

Halle's

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ROBERT B. CARLSON	General Merchandise Manager
PAUL BRISK	General Operating Manager

LOIS MILLER
ROBERT S. SCHUG

The Crescent

H. WILLIAM BACON	General Manager
JAMES G. ARGITES	General Operating Manager
CARL R. JONES	General Merchandise Manager

Corporate Administration

H. DARRYL HOFFMAN	Information Systems
JOHN A. KROYER	Accounting
PAUL R. OBERT	Law
MICHAEL J. USAS	Industrial Relations

Transfer Agents

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
Chicago

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York

Registrars

THE FIRST NATIONAL BANK OF CHICAGO
Chicago

BANKERS TRUST COMPANY
New York